

PALESTINIAN ECONOMIC BULLETIN

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Main reports

The World Bank approved on 27 July a \$30m grant under the “West Bank Emergency Social Protection COVID-19 Response Project”

The Palestine Monetary Authority announced on 22 July the reduction of the bank charge for cheques “bounced” due to insufficient funds

The Palestinian Cabinet approved on 1 June a proposal to establish a government bank to manage public funds and expenses, and submitted its recommendation to Palestinian President Mahmoud Abbas

Al-Quds index reached 460.9 points on the last day of trading in July, a decrease of 2.1% from the previous month

COVID-19 Relief and Response Measures

By 26 August, the total cases of COVID-19 in the West Bank and Gaza Strip reached 25,024, rising at an alarming rate from 3,095 at the beginning of July, and putting the Palestinian health system and society under further pressure.¹ For the fourth consecutive month, the Palestinian National Authority (PNA) has been unable to pay public sector salaries in full as it is facing one of its worst ever fiscal crises. People are losing their jobs, particularly in the informal sector that employs 60% of the workforce. Families are facing significant income compression, and the social protection system is overstretched and unable to reach the “newest poor”. Adding to this, the Government of Israel (GoI) is yet to rescind its plan to annex parts of the occupied West Bank; in a press release on 13 August, the Israeli Prime Minister Benjamin Netanyahu confirmed that the GoI decision to apply Israeli sovereignty over up to 30% of the West Bank is ‘still on the table’, notwithstanding a temporary suspension of action following the US-brokered normalisation agreement between Israel and the UAE.² The international community, particularly the European Union (EU) and the World Bank, recognise the severity of the situation and have begun to allocate their support to help prevent further deterioration of the socio-economic situation.

Government Budget Support

Facing a severe revenue crisis, the PNA has been intensifying its efforts to secure donor support to cover its 2020 emergency budget, estimated at a total of \$5.1bn. Foreign aid to Palestine dropped by 25.1% (to \$723.5m) during the first five months of 2020 compared to the same period in 2019.³ Palestinian public debt reached \$2.9bn by May 2020, compared to \$2.6bn by the end of May 2019. The PNA has paid only 50% of public sector employees’ salaries for May and June and has by the end of August not been able to pay any part of July salaries.⁴ Some experts have warned that the PNA will soon be obliged to accept Israel clearance revenue transfers as the only option to maintain operations and exercise some limited fiscal stimulus, even though its political position opposing annexation has entailed the halt to all forms of coordination with Israel.⁵

Table 1: PNA Emergency Budget for 2020, million USD

Item	Budget
1. Net public revenues and sources of financing	5,082
A. Net revenue	2,382
B. Grants to support the general budget	431
C. Development aid	206
D. Bank financing	617
E. Accumulation of arrears	411
F. Paying arrears	-411
G. Other sources of financing	1440
2. Public expenditure and net lending	5,082
A. Current expenses and net lending	4,682
B. Development expenses	400

Source: Palestine Ministry of Finance

On 27 July, the EU contributed €23m towards the emergency budget, partially covering June salaries of more than 43,000 of the Palestinian civil servants in the West Bank, mostly working in the social sectors (health and education), as well

1 <https://corona.ps/>
2 <https://bit.ly/3l31ybo>, <https://bit.ly/2PXbyo8>
3 www.pmaf.ps/pmaf/internal.php?var=11&tab=01
4 <http://pma.ps/Default.aspx?tabid=340&language=ar-EG>
5 www.aliqtisadi.ps/article/76751/

as pensioners.⁶ Previously, the EU had contributed €38m towards April salaries and pensions.⁷ EU Representative Sven Kühn von Burgsdorff said that this contribution would help maintain the delivery of key public services to the Palestinian people amid this extraordinary crisis. On 3 June, France agreed to contribute €8m (\$8.9m) to the PNA 2020 emergency budget.⁸ France's contribution will support vital services such as energy, water and education.⁹

On 17 June, the PNA submitted an official request at the Arab League to activate the Arab Safety Net of \$100 million in loans per month, to be paid after the resolution of the clearance revenue transfer standoff.¹⁰ However, no Arab official aid to the PNA has been announced to date after two months.¹¹ The increasingly tense and conflicted regional situation, especially since the announcement of Israeli-UAE normalisation of relations, further complicates the challenges facing the PNA's fiscal solvency.

Social Transfers

On 27 July, the World Bank approved a \$30m grant under the "West Bank Emergency Social Protection COVID-19 Response Project."¹² This new project will provide cash support and short-term employment to the "new poor" who lost their income due to the pandemic, and families already living in poverty prior to the COVID-19 outbreak. The project will dispense \$14m in emergency cash transfers to 68,000 of the poorest households affected by the COVID-19 crisis.¹³ The Cash Transfer Programme (CTP) provides quarterly cash assistance to poor and vulnerable families, managed by the Palestinian Ministry of Social Development (MoSD) and funded by the EU (50%), the World Bank (5%), and the PNA budget (45%). An additional \$6m will cover a funding gap in the CTP to prevent 21,400 already registered poor households from falling any further into poverty. This financing gap has emerged since the PNA has been unable to contribute its share of the programme for the second quarter of 2020 due to its current fiscal crisis.

The grant also includes \$10m allocated for the Cash-for-Work programme. This entails providing short-term employment opportunities through NGOs in sectors with a high return in social services and employing more than 3,000 beneficiaries, 50% of whom will be women. The final components include capacity building to build resilience to mitigate the impact of future shocks, including those related to climate change.

On 28 July, the European Union, Austria, and Ireland also provided €23.5m to help the MoSD pay social allowances for vulnerable families through the CTP.¹⁴ This is the second payment of social allowances in 2020 as payments are made on a quarterly basis. An additional 9,000 families from Gaza were recently added to the MoSD

list, as conditions there also deteriorate, bringing the total number of beneficiaries to 114,000 vulnerable families.

At the request of the Ministry of Finance, the European Union has doubled its financial contribution for this payment and provided €21.5 million. Austria and Ireland have also provided €1m each.

Support for UNRWA

On July 20, the EU contributed €4m to the COVID-19 Flash Appeal of the United Nations Relief and Works Agency for Palestine Refugees in the Near East (UNRWA). This contribution will help stabilise the organisation's strained health centres in both the Gaza Strip and the West Bank, including East Jerusalem. The Flash Appeal is expected to assist health centres to respond to the pandemic, with an emphasis on the most vulnerable in the population.¹⁵

On 29 July, the Government of France has disbursed a €6m contribution to UNRWA, bringing its total contribution for 2020 to €20m.¹⁶ Of the additional €6m, €5m will contribute to the Agency's core services of education, health and poverty alleviation for all of UNRWA fields of operation, with another €1m to support the Agency's COVID-19 response in Palestine.

To date, UNRWA has received funding and pledges that cover less than 50% of its main budget (\$806m) and 60% of its planned COVID-19 response (\$14m). It has received even less for its emergency budgets to respond to the acute humanitarian needs in Syria and Gaza, where many Palestine refugees live in abject poverty.¹⁷

Human Capital Development

On 12 June, the World Bank approved a \$15m grant aiming to create sustainable economic opportunities for Palestinian youth through the Information Technology (IT) sector.¹⁸ The Technology for Youth and Jobs (TechStart) Project aims to address impediments to the supply of IT services and help the Palestinian IT sector create more high-quality jobs.

Given that the IT sector relies primarily on technology and skilled human capital, the project will encourage companies to invest in these areas, targeting firms and individuals in need of upskilling to better meet the needs of clients. The project will also provide seed grants to stimulate private investment in the sector, including in research and development. Private sector actors will have the opportunity to invest in new IT firms, training, and human resource services.

The IT sector has the potential to be a source of economic growth and inclusive employment. More than a quarter of working age Palestinians were unemployed prior to the COVID-19 crisis. The new project will tap this potential source of job creation and address the constraints on the sector's expansion, while helping develop an ecosystem that spurs innovation, research and development. This is in line with the PNA's recently launched "Programming for

6 <https://bit.ly/3kUx1Mz>

7 <https://bit.ly/2Y8ihQF>

8 www.middleeastmonitor.com/20200603-france-grants-8-9m-to-support-palestine-economic-efforts/

9 www.pmf.ps/pmf/documents/budget/2020/budgetBook2020.pdf

10 www.aa.com.tr/en/middle-east/palestine-seeks-100m-loan-from-arab-league/1880887

11 <https://felesteen.ps/post/69122/>

12 <https://bit.ly/2Y9wVHe>

13 <https://bit.ly/2Q0pZYC>

14 <https://bit.ly/3g72oQB>

15 <https://bit.ly/2DZH8M>

16 <https://reliefweb.int/report/occupied-palestinian-territory/france-supports-unrwa-eur-20-million>

17 <https://bit.ly/3kMISwp>

18 <https://bit.ly/3kSbLHw>

Youth” programme, which will run for 3 years and train young people in skills related to programming.¹⁹

COVID-19 Liquidity Trap

On 22 July, the PMA announced the reduction of the bank charge for a declined or “bounced” cheque due to insufficient funds, to approximately \$6.²⁰ Prior to the announcement, the charge for a bounced cheque due to insufficient funds was \$15, while the fee for those returned for technical reasons is \$10.²¹ These changes followed complaints by chambers of commerce, businesses and individuals that the pandemic has left them unable to meet their obligations, calling for an arrangement to pay the bounced cheques in deferred installments.²²

The value of bounced cheques at the Palestinian cheques clearing house²³ witnessed a year-on-year increase of 113% in the second quarter of 2020, reaching \$679.3m, following a significant drop in liquidity caused by the COVID-19 pandemic and its related precautionary measures.²⁴ In volume, 541,631 cheques bounced in Q2 2020 compared to 209,355 in Q2 2019, marking a 158.7% increase.²⁵ The increase of bounced cheques occurred alongside a decline of 10.5% in cheques submitted for clearing, an event to be expected given the significant drop in economic activity. Although the value of bounced cheques reached its highest recorded monthly peak in April, at \$366m, its value has been declining since then with \$179m in May and \$134.4m in June as the PNA eased the lockdown and aggregate demand stalled. However, the annual value of bounced cheques is still likely to be the highest ever recorded, exceeding the 2019 value of \$1.277bn, which resulted from the clearance revenue crisis.²⁶ There were 715,640 bounced cheques in the first half of the 2020, valued at \$966.1m, marking a 78.2% and 59.7% increase in the volume and value of bounced cheques respectively.²⁷

Alongside the liquidity problems caused by COVID-19 lockdown, some experts have pointed to the PMA pandemic policy response for this large increase in bounced cheques,²⁸ particularly the decision to suspend the classification of SMEs and individuals on the system of bounced cheques for four months starting in March.²⁹ Nonetheless, private sector representatives such as Abdulghani al-Atari, head of the Ramallah Chamber of Commerce, called for suspending the cheques clearing house when there is a lockdown on some sectors.³⁰ Businesses and individuals also called for cancelling charges on bounced cheques until the pandemic is over.³¹

19 <https://bit.ly/3kODcC9>

20 <https://bit.ly/2Q2KoMJ>

21 <https://bit.ly/2YaC6H4>, https://www.al-ayyam.ps/ar_page.php?id=1409fefey336199422Y1409fefey

22 <https://felesteen.ps/post/64164/>, <https://www.wattan.net/ar/video/313959.html>

23 Cheque clearing or bank clearance is the process of moving cash from the bank on which a cheque is drawn to the bank in which it was deposited, usually accompanied by the movement of the cheque to the paying bank, either in the traditional physical paper form or digitally under a cheque truncation system

24 www.aliqtisadi.ps/article/76409/

25 These values and volumes only indicate bounced cheques presented through the Palestinian clearinghouse and exclude those returned within bank branches or Israeli banks.

26 www.aliqtisadi.ps/article/76409/

27 www.al-ayyam.ps/ar_page.php?id=140c15eey336336366Y140c15ee

28 www.pma.ps/Default.aspx?tabid=343&ArtMID=957&ArticleID=2514&language=ar-EG

29 <https://bit.ly/2Fo0oGT>, <https://bit.ly/3h5u0a9>

30 <https://bit.ly/311CZ6x>, <https://www.aliqtisadi.ps/article/76330/>

31 www.aliqtisadi.ps/article/76409/

Governmental Development and Investment Bank

On 1 June, the Palestinian Cabinet approved a proposal to establish a government bank to manage public funds and expenses in Palestine, and submitted its recommendation to Palestinian President Mahmoud Abbas.³² The proposal includes the establishment of a financial institution that provides banking services to the public, and grants small and micro loans to individuals and companies. On 20 June, the Cabinet nominated a General Manager for the bank soon to be established.

According to the proposal, the bank will open with a starting capital of \$100m, obtained through several funds currently managed by the government.³³ Once established, the Cabinet expects the bank to have a deposit portfolio of \$50m and a credit portfolio of \$30m.³⁴ The new bank is intended primarily to play a key role in processing public revenues and expenses (including payments to public sector employees), improving the control and audit of public accounts and consolidating the dispersed public accounts in a single location.

In addition, the proposed bank is expected to protect local banks from future Israeli threats and legal battles, as it will process all social transfers including the payments made to Palestinian political prisoners, and families of Palestinians killed by Israeli forces. On 9 February, the Israeli Ministry of Defense issued military order #67(2020) that threatens to hold responsible any person with direct or indirect involvement in any financial transaction that is ‘related to terrorism’.³⁵ The order became effective on 9 May 2020 but has yet to be enforced.

On 16 January 2019, several lawsuits were filed in US courts against three banks in Palestine involving alleged violations of the US Anti-Terrorism Act.³⁶ The monetary value of these lawsuits is still unclear but a similar lawsuit against the Arab Bank on 31 December 2019 sought a total compensation of \$5.8bn.³⁷

July Trading

In July 2020, Al-Quds index reached 460.9 points on the last day of trading, a decrease of 2.1% from the previous month and a 12.4% drop compared to the corresponding month in 2019.³⁸ During July, investors traded a total of 8m shares with a total value of \$17.4m, marking an 88.2% and a 115.8% increase in the volume and value of traded shares compared to the previous month. Year-on-year, this marks a 47.6% and 21.7% drop, respectively.

32 www.palestinecabinet.gov.ps/portal/meeting/details/50376

33 <https://bit.ly/313GLwb>

34 www.palestineconomy.ps/ar/Article/16695/

35 <https://mondoweiss.net/2020/05/israel-puts-the-entire-palestinian-banking-system-on-notice/>

36 www.palestineconomy.ps/en/Article/14017/

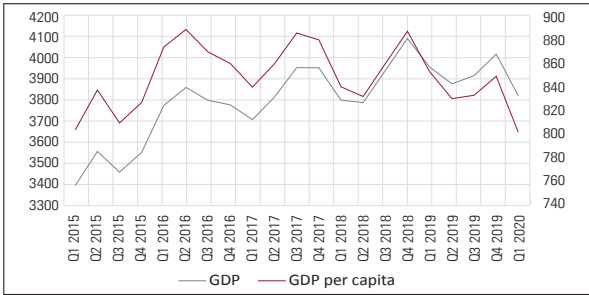
37 <https://bit.ly/3h6oPXk>

38 <https://bit.ly/3avgdHg>

Palestine Economic Dashboard

Growth

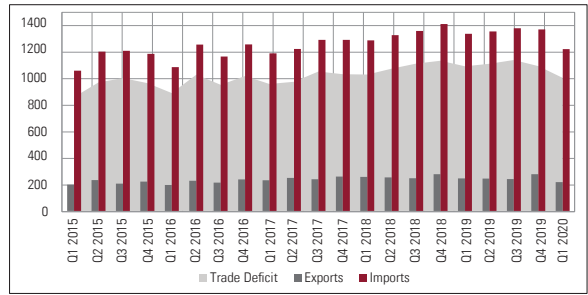
GDP (in million USD) and GDP Per Capita (in USD) in Palestine, Q1 2015 – Q1 2020



GDP (Q1 2020): \$3,820.4m GDP per capita (Q1 2020): \$802
Source: PCBS

Trade

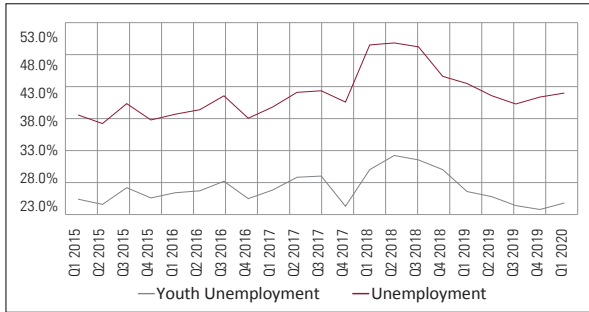
Exports, Imports and Trade Deficit in Palestine ('000 USD), Q1 2015 – Q1 2020



Imports (Q1 2020): \$1,296.7m Exports (Q1 2020): \$230.6m
Trade deficit (Q1 2020): \$1,066.1m Source: PCBS

Unemployment

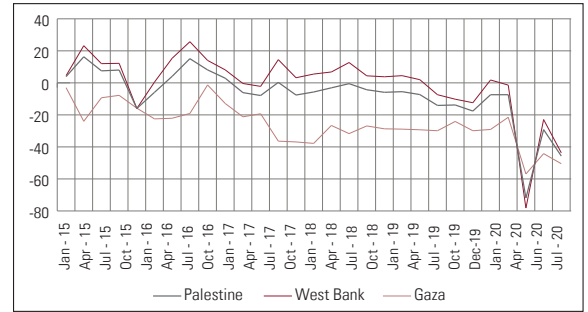
Unemployment and Youth Unemployment in Palestine, Q1 2015 – Q1 2020



Unemployment rate(Q1 2020): 25% Youth Unemployment rate (Q1 2020): 42.1%
Source: PCBS

Business Cycle Index

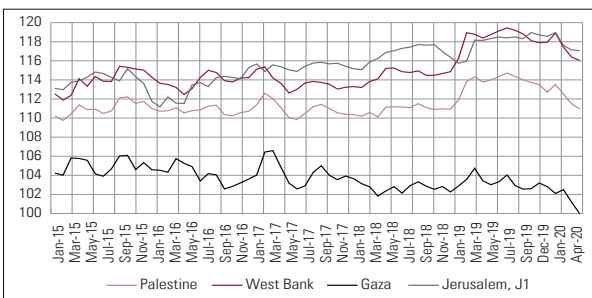
Palestine Monetary Authority Business Cycle Index, January 2015 – July 2020



Palestine (July 2020): -45.7 West Bank (July 2020): -43.7
Gaza (July 2020): -50.5 Source: PMA

Inflation

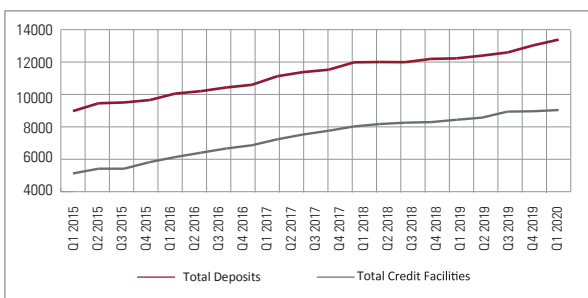
Consumer Price Index (Base year = 2010), January 2015 – July 2020



Palestine (July 2020): 110.9 West Bank (July 2020): 116
Gaza (July 2020): 99.5 Source: PCBS

Banking Sector

Total Credit Facilities and Total Deposits in Palestine ('000 USD), Q1 2015 – Q1 2020



Total Credit (Q1 2020): \$9,249.8m Total Deposits (Q1 2020): \$13,303.8m
Source: PMA

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The Palestinian Economic Bulletin is prepared by the Palestine Economic Policy Research Institute (MAS) and edited by The Portland Trust. Please send any comments, suggestions, or complaints to feedback@portlandtrust.org

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